

Service Date: April 4, 2014

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

IN THE MATTER OF the Application of) REGULATORY DIVISION
NorthWestern Energy for Hydro Assets)
Purchase) DOCKET NO. D2013.12.85

NOTICE OF ADDITIONAL ISSUES

On December 20, 2013, NorthWestern Energy (NorthWestern) filed its *Application for Hydro Assets Purchase* (Application) with the Montana Public Service Commission (Commission). On January 16, 2014, the Commission issued Procedural Order No. 7323b which established deadlines for discovery, testimony, and additional issues identification. The deadline for the identification of additional issues is April 4, 2014. At a work session on April 4, 2014, the Commission identified the following additional issues, which are described and identified below.

Due diligence review

On March 31, 2014, The Essex Partnership, the Commission's engineering consultant in this case, submitted a due diligence review "checklist" that provided Essex's assessment of the available docket information regarding the condition and status of the hydro facilities in the categories of civil engineering/FERC Part 12 inspections, electrical, mechanical, and regulatory compliance and environmental issues. On April 2, 2014, Essex submitted a memo in which the firm summarized its major findings. Essex's checklist and memo identified numerous issues as potential drivers of significant future costs that were not included in NorthWestern's future capital expenditures (CapEx) and operation and maintenance cost estimates and assumptions. Essex expressed its opinion that "... the information in the docket to date does not contain sufficient information to confirm NWE's projections of capital or operations and maintenance (O&M) expenditures through the 20-year study period of the discounted cash flow analysis."¹

¹ Essex Partnership memorandum to the Montana Public Service Commission, April 2, 2014, p. 1.

The Commission directs NorthWestern and the intervenors to provide additional testimony on the following due diligence issues:

1. In view of the issues identified in the Essex checklist and memo, please address the structural integrity, physical condition, environmental liabilities, and the sufficiency of NorthWestern's due diligence effort for each of the individual facilities.
2. Essex identified in its checklist and memorandum multiple issues that, if the costs to remedy them were incorporated into the CapEx and O&M cost projections, would increase future CapEx and O&M cost estimates for the next 20 years to levels in excess of NorthWestern's projections. In addition, Essex's memorandum included a chart that demonstrated its concern that NorthWestern's future CapEx budget for the hydro assets produces significant reductions in the "base" CapEx that will be available for the assets in the years that major projects are planned. The Commission is seeking a fuller understanding of what the range of potential future CapEx and O&M costs might be and the effect of those potential costs on NorthWestern's net present value cost estimates.

BY THE MONTANA PUBLIC SERVICE COMMISSION

W. A. (BILL) GALLAGHER, Chairman

BOB LAKE, Vice Chairman

KIRK BUSHMAN, Commissioner

TRAVIS KAVULLA, Commissioner

ROGER KOOPMAN, Commissioner